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Comprehensive review of the whole question of peacekeeping operations in all their aspects

Administrative and budgetary aspects of the financing of the United Nations peacekeeping operations

The concept of strategic deployment stocks and its implementation

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Secretary-General on the concept of strategic deployment stocks and its implementation (A/56/870). During its consideration of the report, the Advisory Committee met with representatives of the Secretary-General, who provided additional information.
2. As indicated in paragraph 2 of the report, in response to the recommendation of the Panel on United Nations Peace Operations (see A/55/305-S/2000/809) on the establishment of a rapid deployment capability (30 days for a traditional mission and 90 days for a complex mission), the Secretary-General proposed the concept of a strategic reserve for peacekeeping operations to rapidly capitalize on opportunities for peace (see A/55/977). The rapid deployment concept has four major components: (a) standby arrangements for troops and police; (b) rosters of key civilian staff; (c) material stocks at the United Nations Logistics Base at Brindisi (UNLB); and (d) pre-mandate commitment authority.
3. According to the Secretary-General, the material reserve and the financial commitment authority are crucial issues, as "existing arrangements and procedures do not allow the Organization to meet the rapid deployment time frame in these areas" (A/56/870, para. 5). The Advisory Committee notes that concern has been expressed in the Special Committee on Peacekeeping Operations regarding the limited response to the United Nations standby arrangements (see A/56/863, para. 24).
4. The Advisory Committee points out that the basic idea of strategic deployment stocks does not appear to be an entirely new one for managing United Nations peacekeeping operations. It should be noted that the implementation of the concept of start-up kits, as well as the establishment and subsequent development of the United Nations Logistics Base at Brindisi, has contributed greatly to the launching of peacekeeping operations. In fact, as indicated in paragraph 10 of document A/56/870, the components of the current mission start-up kits will be merged with strategic deployment stocks.



5. As indicated in paragraph 2 of document A/56/870, the Special Committee on Peacekeeping Operations urged the Secretariat to work towards the goal of rapid deployment within a 30/90 day time frame and endorsed the concept of a strategic reserve, including a material reserve; the medium-sized reserve was recommended as the most appropriate and practical option, entailing an up-front investment of approximately \$170 million and annual recurrent costs of some \$40 million. The Committee also notes from paragraph 7 of the report that Member States had varying views on the assumption regarding the number of missions, that is, whether two missions — one complex and one traditional — or one complex mission alone constituted an appropriate planning assumption for strategic deployment stocks (see also para. 15 below).

6. According to the Secretariat, the strategic deployment stocks will support the deployment of one traditional and one complex mission with the following profiles:

	<i>Traditional mission</i>	<i>Complex mission</i>
Troop strength ^a	5 000	10 000
International staff	175	375
Military observers	200	500
Civilian police	100	500
Local staff	300	575

^a With 50 per cent self-sustaining capability.

7. In accordance with the strategic deployment stocks concept, the Secretariat will procure key items, such as vehicles, communications and engineering equipment, and accommodation and ablution units, store them at UNLB and ensure that they are kept current and serviceable. Other critical items and services, such as strategic lift, fuel, rations and water, will be procured through contractual arrangements before the adoption of a Security Council resolution establishing a new mission.

8. As reflected in paragraphs 24 to 27 of document A/56/870, on the replenishment of the strategic deployment stocks, the initial procurement of the stocks will represent a one-time cost, proposed to be financed from the balances of several closed missions. Every release of equipment from strategic deployment stocks will trigger an immediate replenishment action.

The budgets of receiving missions will provide for the purchase of replacement commodities, as well as the cost of shipment from the provider to UNLB. The costs associated with the preparations for storage and shipment of strategic deployment stocks commodities, as part of replacement or rotation actions, will be met through the UNLB budget. Operating and maintenance costs, including costs for items that have to be replaced because of expiration or obsolescence, other than shipment and preparation costs, will also be met through the UNLB budget. **The Advisory Committee has no objection to the replenishment policy, as its basic principles appear to be in conformity with the current policy approved by the General Assembly.**

9. As indicated in paragraph 15 of document A/56/870, the Secretariat will rotate certain strategic deployment stocks — for example, vehicles and electronic data-processing equipment — to other missions so that the items do not become obsolete. **In this connection, the Committee cautions against the stocking of large quantities of expensive high-tech equipment that may become obsolete in a very short time, such as electronic data-processing and communications equipment. Moreover, on the basis of information provided, the Advisory Committee concludes that it is possible for a large number of items to be obtained at short notice. The Committee therefore trusts that a proper balance will be found between items that need to be stored at UNLB and equipment that can be obtained from either vendors or Member States at short notice.**

10. Paragraph 16 of document A/56/870 deals with the use of contractual arrangements, namely, systems contracts and letters of assist. As indicated therein, “with more than 100 systems contract in place, the Secretariat now has reduced lead time for internal procurement processes”. The Committee was provided, upon request, with information on lead time, which is reproduced in the annex to the present report. **The Committee recommends that consideration be given to contracting some services relating to receipt, inspection and reporting in connection with strategic deployment stocks items, with a view to increasing the efficiency of the procurement process for peacekeeping operations.**

11. The Committee notes from paragraph 16 (b) of document A/56/870 that the Secretariat will further explore the use of letters of assist, which are currently

used for standby arrangements for strategic lift and have proved to be very useful.

12. With regard to the possibility of using retainer contracts, the Advisory Committee notes the statement in paragraph 17 of document A/56/870 that "the use of retainer contracts is not common in the United Nations system, and there are no specific plans at this time to use them in the context of strategic deployment stocks". The Committee further notes that retainer contracts entail high costs, since a retainer fee could range up to 30 per cent per annum of the cost of the items.

13. As indicated in paragraph 20 of document A/56/870, the budgetary requirements for strategic deployment stocks include non-recurrent costs amounting to \$179.6 million. Other costs, such as those relating to staff and maintenance, are estimated at \$6 million per year and will be met through the UNLB budget. The Committee notes that in the proposed budget for UNLB for the period from 1 July 2002 to 30 June 2003, the cost of staff and maintenance, *inter alia*, for the strategic deployment stocks is estimated at \$1.9 million (see A/56/871, annex I.D, programme 7).

14. As indicated in paragraph 21 of document A/56/870, a total of 47 additional posts (13 international and 34 local) are required for the implementation of the strategic deployment stocks concept, the cost of which will be reflected in the 2002/03 budget for UNLB. The Committee notes that these 47 posts are budgeted for only six months of the period 2002/03 since, as indicated in the Secretary-General's report on the proposed budget for UNLB, "it is anticipated that most of these personnel will not be required until the initial shipments of strategic deployment stocks equipment arrive in the Logistics Base in late 2002" (A/56/871, para. 9).

15. The Advisory Committee was informed that non-recurrent budgetary requirements for strategic deployment stocks for one complex mission would amount to \$146.2 million. **The Committee is of the view that, taking into account the magnitude of the budgetary requirements involved, it would be prudent at this stage to proceed to implementation for one complex mission only. The Committee points out that coverage for one complex mission would also subsume provision for a traditional mission. The Committee recommends a continuous evaluation of the strategic deployment stocks to**

ensure that the equipment is always appropriate for the stated purpose. The Secretary-General should ensure that there is effective inventory management and control using available technology, including the Field Assets Control System. The Committee also believes that the lessons learned from implementing the strategic deployment stocks concept for one complex mission should be thoroughly studied and reported to the General Assembly through the Advisory Committee on Administrative and Budgetary Questions.

16. The Advisory Committee was informed, upon enquiry, that the maintenance costs for strategic deployment stocks for one complex mission at UNLB, including staffing costs, are estimated at \$1.6 million for the budget period 2002/03. This would provide for 40 additional posts (13 international and 27 local level). The comments and recommendations of the Committee on staffing requirements relating to strategic deployment stocks for one complex mission are contained in its report on the proposed budget for UNLB (see A/56/887/Add.10).

17. As stated in paragraph 8 above, the Secretary-General proposes that the one-time cost of the initial procurement of the strategic deployment stocks be offset by using the fund balances of several closed missions. The Committee sought clarification on paragraph 22 of document A/56/870, which indicates that the cost of establishing the strategic deployment stocks will be charged to the UNLB budget on a one-time basis. According to the clarification provided by the Secretariat, separate accounts will be established for recording expenditure relating to the one-time cost of acquiring strategic deployment stocks and for expenditure relating to UNLB, including the maintenance of the strategic deployment stocks at UNLB. Subject to approval by the General Assembly, funds would be transferred from the special accounts of several closed missions to the UNLB account to meet costs relating to the strategic deployment stocks. Two performance reports covering the period from 1 July 2002 to 30 June 2003 will be issued, in connection with the resources authorized for the one-time cost of acquiring strategic deployment stocks and in connection with the resources authorized for UNLB, including those for the maintenance of the strategic deployment stocks at UNLB.

18. On the issue of the financing of the strategic deployment stocks, the Committee recalls the approach used in the context of the establishment of the Peacekeeping Reserve Fund (see General Assembly resolution 47/217). In the context of the strategic deployment stocks, the General Assembly may wish to consider a similar procedure.

Financial commitment authority

19. Paragraphs 28 to 35 of the Secretary-General's report (A/56/870) deal with the issue of financial commitment authority. The Committee notes the proposal in paragraph 30 that commitment authority be granted to the Secretary-General when the establishment of a new peacekeeping mission is anticipated. As indicated in paragraphs 28 and 35 of the Secretary-General's report, two major areas of concern are procurement and planning.

20. The proposal in paragraph 29 of document A/56/870 for an additional financial mechanism stems from a belief that current arrangements, based on General Assembly resolution 49/233 A, are not applicable to the planning and procurement activities envisaged in the report. The Advisory Committee points out that when the Secretary-General perceives a need to start planning for an operation that may or may not evolve into a peacekeeping mission, he has available a variety of mechanisms to commit funds. These are referred to in the resolutions on unforeseen and extraordinary expenses, adopted biennially together with the programme budget (e.g., General Assembly resolution 56/256), and in General Assembly resolution 49/233 A, which provides commitment authority for the start-up and expansion of peacekeeping operations. Commitments pursuant to paragraph 1 of the resolutions on unforeseen and extraordinary expenses can be entered into either under the Secretary-General's own authority or, if in excess of \$8 million, with the prior concurrence of the Advisory Committee. Commitment authority under paragraph 3 of those resolutions or pursuant to General Assembly resolution 49/233 A requires a prior decision by the Security Council.

21. In this connection, the Committee notes the Secretary-General's proposal of a mechanism by which he would inform the President of the Security Council in writing of his intention to plan and prepare for a new mission; upon receipt of a letter from the President of

the Security Council expressing concurrence with his intention, he would initiate the steps outlined in paragraph 35 of document A/56/870.

22. It is the opinion of the Advisory Committee that a letter from the President of the Security Council to the Secretary-General expressing concurrence with the Secretary-General's intention to plan and prepare for a possible new mission would constitute a decision sufficient to trigger the implementation of either paragraph 3 of the resolutions on unforeseen and extraordinary expenses or General Assembly resolution 49/233 A.

23. It is the further opinion of the Advisory Committee that the actions and activities envisaged by the Secretary-General in paragraph 35 of document A/56/870 fall within the scope of the "start-up phase" referred to in General Assembly resolution 49/233 A, section IV, paragraph 1. As stated in paragraph 29 of the Secretary-General's report, such an interpretation would be consistent with the recommendation of the Panel on United Nations Peace Operations (see A/55/305-S/2000/809, annex III, para. 13 (c)) and with the annex to Security Council resolution 1327 (2000).

24. Should the General Assembly endorse these opinions of the Advisory Committee, there would be no need to provide any additional commitment authority or to amend section XI, paragraph 2, of General Assembly resolution 49/233 A (see A/56/870, para. 36 (f)). The Committee points out that, as indicated in paragraph 31 of document A/56/870, the cumulative total of outstanding commitment authority would not exceed the existing limit of \$150 million; the recommendations of the Advisory Committee would therefore not affect the total commitment authority available to the Secretary-General under General Assembly resolution 49/233 A.

25. With regard to planning, the Advisory Committee points out that there exists within the Secretariat, particularly in the Department of Peacekeeping Operations, a permanent capacity for planning, which can and should be utilized without the need for additional commitment authority. This permanent capacity should therefore be fully exploited before additional commitment authority is sought or entered into.

26. Taking into account the comments and observations above, the Advisory Committee recommends that the General Assembly endorse the concept of strategic deployment stocks and its implementation for one complex mission and approve the one-time cost of acquiring equipment for strategic deployment stocks for one complex mission in the amount of \$146.2 million.

Annex

Field Administration and Logistics Division systems contracts: summary of lead times^a

	Lead time
<i>Commodity</i>	
Trunking system	26 weeks
Communications and IT staffing support	35 days or more
Digital microwave links	60-120 days
EVM system	8 weeks
High-frequency radios	30 business days
Higher-capacity uninterruptible power system (UPS)	90 days
Rural telephone links	12-20 weeks
Satellite test equipment	13-19 weeks
Troop proficiency trainer (TPT) — air traffic control	Six months
Desktop computers and monitors	30 days
Digital senders	b
Flat-panel monitors	b
Laptop computers	b
PROXIM 100 Mbps Wireless Bridges	30 days
Ruggedized laptop computers	b
Servers and rack systems	b
Uninterruptible power system 700VA	3 weeks
Wireless local area network (LAN)	6 weeks
Storage Area Network (SAN) Solution	System-specific
Mobile earth stations	c
Air band portable radios	b
Mobile deployable telecom vans	c
Fire walls	c
Global System for Mobile Communications (GSM) phones	c
E-cabinets (under review by Procurement Division)	b
Private automatic branch exchanges (PABXs)	c
Radio broadcasting systems	c
Solar panels	c
Telephone frames	c
LAN analysers	c
Radio towers	c

	Lead time
<i>Engineering commodity</i>	
Defence stores — (angular iron pickets)	To be determined by UN
Defence stores — (gabions)	To be determined by UN
Engineering support services	2-3 weeks
Infrastructure (Bailey bridges)	5 within 60 days
Prefabricated accommodation	4-12 weeks
Prefabricated buildings	4-12 weeks
Prefabricated buildings (ablution units)	30 units within 30 days
Prefabricated buildings (hangars)	Upon receipt of supply order, 1 (46m x 45m) within 45 days and 1 (34m x 36m) within 30
Prefabricated buildings (softwall)	1 within 30 days; additional buildings 10 extra days
Water-purification equipment	2 units within 30 days
Water-purification equipment	2 units within 30 days
Prefabricated buildings (250- and 500-man kitchens)	2 in 45 days
Prefabricated buildings (50-man kitchens)	1 in 45 days
Prefabricated high-security containers	1 unit in 45 days
Accommodation (medium floor system)	2,400 sq m in 30 days
Accommodation (light floor system)	2,400 sq m in 30 days
Defence stores (barbed wire)	4,000 rolls in 3 weeks
Defence stores (binding wire)	2,000 rolls in 4 weeks
Defence stores (sandbags)	300,000 sandbags in 3 weeks
Defence stores (concertina wire)	4,000 rolls in 2 weeks
Generating sets (450 and 750 KVA)	Within 30 days
Prefabricated buildings	Prototype under evaluation
Generating sets (2.5 and 5 KVA)	30 units in 30 days
<i>Supply commodity</i>	
Air conditioners	Up to 70 days
Air conditioners	42 days
Ballistic helmets	45 days
Bar code labels	30 days
Bulletproof vests	28 days
Coffee makers	35 days
Containers	120 days
Cots and sleeping bags	35 days
Desk lamps	35 days
Fire extinguishers	35 days
Flashlights	35 days
Fragmentation vests	45 days
Freezers	70 days

	<i>Lead time</i>
Fuel management equipment	120 days
Fuel management equipment (ground fuel only)	120 days
ID products	42 days
Medals and numerals	42 days
Microwave ovens	60 days
Night-vision equipment	120 days
Office furniture	42 days
Ration packs	14 days
Refrigerated containers	70 days
Refrigerators	60 days
Shredders	60 days
System contract — stationery items	21 days, more for paper
Tabletop refrigerators	60 days
Tents	70 days
Uniforms	28 days
Uniforms	60 days
Vacuum cleaners	35 days
Videc projectors	42 days
Electrical supplies	90 days
Concertina wire	30 days
Electrical supplies	60 days
UN flags	60 days
Binoculars	60 days
<i>Transport commodity</i>	
Armoured vehicle procurement	90-120 days
Global spare parts direct provisioning contracts	30/90 days
Material-handling equipment	90/120/150/180/240 days
Vehicle procurement	90-270 days, depending on type of vehicle

^a Lead times are exclusive of internal processing and shipping time.

^b Procurement Division issuing new solicitation.

^c Procurement Division waiting on new specifications.

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Agenda items 130 and 139

**Report of the Secretary-General on the activities of the
Office of Internal Oversight Services**

**Financing of the activities arising from Security Council
resolution 687 (1991)**

**Update of oversight activities concerning the
oil-for-food programme and the United Nations
Compensation Commission****Note by the Secretary-General***

1. Pursuant to General Assembly resolutions 48/218 B of 29 July 1994, 54/244 of 23 December 1999 and 56/246 of 24 December 2001, the Secretary-General has the honour to transmit, for the attention of the General Assembly, the attached report, conveyed to him by the Under-Secretary-General for Internal Oversight Services.
2. The Secretary-General takes note of its findings and of the efforts being made by the Office of the Iraq Programme and the United Nations Compensation Commission to implement the recommendations of the Office of Internal Oversight Services.

* The report transmitted in the present note was delayed owing to extensive consultations with the Office of the Iraq Programme and the United Nations Compensation Commission.



Report of the Office of Internal Oversight Services on the update of oversight activities concerning the oil-for-food programme and the United Nations Compensation Commission

Summary

The present report expands upon the issues concerning the Iraq oil-for-food programme discussed in annual reports of the Office of Internal Oversight Services (OIOS) for the periods from July 1999 to June 2000 and from July 2000 to June 2001 and describes the actions taken by management to address the recommendations made by OIOS. The oil-for-food programme inherently involves high risks owing to the wide range of activities carried out, the large number of United Nations organizations involved and the unprecedented level of funds. This is also a relatively new activity without adequate precedents to draw upon. The report accordingly provides the OIOS strategy and background information on auditing the oil-for-food programme as well as the United Nations Compensation Commission.

The Office of the Iraq Programme was established at United Nations Headquarters in October 1997 to consolidate the management of United Nations activities under the oil-for-food programme and to improve the overall implementation of the programme established by the Security Council in its resolutions 986 (1995) and 661 (1990). The United Nations Compensation Commission, established by the Council in its resolution 687 (1991), is a subsidiary organ of the Council responsible for processing claims and paying compensation for losses resulting from Iraq's invasion and occupation of Kuwait.

In the view of OIOS, the Office of the Iraq Programme and the United Nations Office of the Humanitarian Coordinator in Iraq have welcomed audits. They have also been responsive to audit recommendations, and have made serious efforts to implement them. However, a number of issues need to be further addressed by the management of the Office of the Iraq Programme. These include improved management of major contracts in Iraq, as well as enhanced coordination and monitoring of project activities carried out by United Nations agencies and programmes in northern Iraq.

The management of the United Nations Compensation Commission has satisfactorily addressed the recommendations of OIOS resulting from the management audit of the Commission's phase-out activities. However, the Commission's Governing Council did not agree with a recommendation of OIOS calling for Governments and other organizations to provide audit certificates as part of the claims payment process. The Commission also did not agree with certain recommendations of OIOS concerning adherence to the prescribed claims processing methodology for individual claims for damages exceeding \$100,000.

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I. Introduction

1. The terms of reference of the oil-for-food programme, which were established under Security Council resolution 986 (1995) of 14 April 1995, enabled Iraq to sell up to \$1 billion of oil every 90 days and to use the proceeds for the purchase of humanitarian supplies. Subsequent Council resolutions have extended the programme, and by Council resolution 1284 (1999) of 17 December 1999, the ceiling on the amount of oil that Iraq could export was removed. The Office of the Iraq Programme was established at United Nations Headquarters on 15 October 1997 to consolidate and manage the activities of the United Nations Secretariat pursuant to Council resolutions 986 (1995) and 661 (1990). The United Nations Office of the Humanitarian Coordinator in Iraq is an integral part of the Office of the Iraq Programme with the Humanitarian Coordinator reporting directly to the Executive Director of the Iraq Programme. The Humanitarian Coordinator is responsible for managing and implementing the oil-for-food programme in Iraq. The core responsibility of the United Nations in the centre/south of Iraq is observing the distribution of humanitarian supplies and equipment as well as monitoring the use of oil spare parts and equipment purchased by the Government of Iraq. The United Nations Compensation Commission was established by the Council in 1991 to process claims and pay compensation for losses resulting from Iraq's invasion and occupation of Kuwait.

2. The complexity and diversity of the Organization's responsibilities under the relevant Security Council resolutions and the associated risks made it essential to ensure adequate oversight coverage. In this context, the Office of Internal Oversight Services (OIOS) was provided with additional resources in early 2000 to establish the Iraq Programme Audit Section within its Internal Audit Division. OIOS has developed audit strategies to ensure effective oversight of the Programme's high-risk areas. The present report provides an update of oversight activities discussed in the two most recent annual reports of OIOS (A/55/436 and A/56/381) as well as additional information on audits of the oil-for-food programme and the United Nations Compensation Commission. A draft of the report was made available to the Office of the Iraq Programme and the United Nations Compensation Commission. Their comments have been taken into account in preparing this final report.

3. In its resolution 56/246, the General Assembly requested the Secretary-General to ensure that the Office of Internal Oversight Services submitted an update on the status of the oversight activities referred to in paragraphs 71 to 81 and in paragraphs 52 to 60, respectively, of its two most recent annual reports (A/55/436 and A/56/381), for further consideration by the Assembly at its resumed fifty-sixth session.

II. Oil-for-food programme audit strategies

4. The Iraq Programme Audit Section of the Internal Audit Division of OIOS has wide-ranging audit responsibility concerning oil-for-food programme activities. OIOS audit coverage of the programme has increased substantially since the establishment of the Section, which is responsible for auditing the Office of the Iraq Programme headquarters in New York, the United Nations Office of the Humanitarian Coordinator in Iraq, the United Nations Compensation Commission, the United Nations Monitoring, Verification and Inspection Commission

(UNMOVIC) and the United Nations Human Settlement Programme (UN-Habitat) Settlement Rehabilitation Programme in Northern Iraq. Initially, the strategy of OIOS was to assign audit responsibility for all Security Council resolution 986 (1995)-funded activities to the Iraq Programme Audit Section of the Internal Audit Division in order to obtain a global view of the myriad activities and to enable a more focused approach.

A. Coordination of audit activities

5. An essential element of the audit strategy of OIOS involves coordinating activities with the internal audit bodies of the nine United Nations agencies and programmes involved in implementing the oil-for-food programme in northern Iraq. Under Security Council resolution 986 (1995), 13 per cent of oil revenues are allocated to projects in northern Iraq. An additional 2.2 per cent of oil revenues are allocated to administrative and operational costs for United Nations activities associated with the humanitarian programme in Iraq, as well as the headquarters level for both the Secretariat and the agencies and programmes concerned. Figure I shows the significant amount of funds allocated to the United Nations agencies and programmes for activities in northern Iraq through the 13 per cent account.¹ Figure II shows budgeted administrative and operational costs for activities carried out by United Nations agencies and programmes in northern and central/south Iraq. (Note: in figures I and II, FAO = Food and Agriculture Organization of the United Nations; WFP = World Food Programme; UNICEF = United Nations Children's Fund; UNDP = United Nations Development Programme; WHO = World Health Organization; UNESCO = United Nations Educational, Scientific and Cultural Organization; UNCHS (Habitat) = former United Nations Centre for Human Settlements (Habitat); UNOPS = United Nations Office for Project Services; ITU = International Telecommunication Union.) In the opinion of OIOS, the similarities between the projects carried out by the United Nations agencies and programmes in northern Iraq make it feasible to perform horizontal audits, in order to review the same areas in each United Nations agency and programme. This approach will result in harmonizing procedures among the agencies. OIOS has identified a number of areas where horizontal audits would be beneficial including project planning, procurement practices, personnel and financial management.

6. Most of the audit bodies of the United Nations agencies and programmes implementing oil-for-food programme activities were represented at the last annual meeting of the representatives of internal audit services of the United Nations organizations and multilateral financial institutions held in Bangkok in June 2001. A priority agenda item at the meeting was auditing of the oil-for-food programme. A five-pronged approach to auditing the programme was developed as follows:

- (a) Share audit plans and information required for conducting horizontal audits;
- (b) Perform joint audits;
- (c) Share audit results;
- (d) Appoint an audit focal point in each audit body;
- (e) Include auditing of the oil-for-food programme as a standing item for future meetings of the audit services.

Figure I

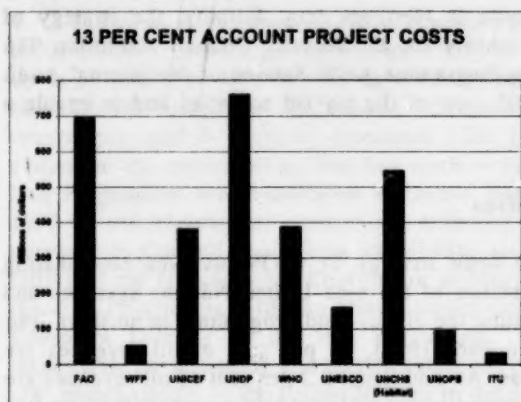
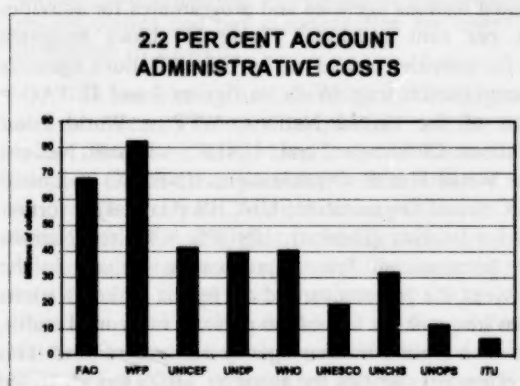


Figure II



B. Audit coverage

7. The initial phase of the OIOS audit strategy focused on reviewing field issues in Iraq. This goal was achieved by establishing two resident auditor posts in Iraq. These auditors have reviewed the activities of the United Nations Office of the Humanitarian Coordinator in Iraq and liaised with other United Nations agencies and programmes implementing Security Council resolution 986 (1995)-funded activities in Iraq. In the second phase, with the addition of another auditor post, OIOS expanded its coverage to include Office of the Iraq Programme headquarters and other bodies including the United Nations Compensation Commission and UN-Habitat. However, OIOS still places a high priority on the audit of field activities, especially those involving the implementation of the oil-for-food programme in northern Iraq. As at the end of 2001, OIOS had completed the following audits:

<i>Organization</i>	<i>Audit subject</i>
Office of the Iraq Programme	• Contract for the supply of inspection agents in Iraq • Contract for the supply of oil inspectors in Iraq • Iraq escrow account treasury and cash management
United Nations Office of the Humanitarian Coordinator for Iraq	• Procurement, finance, asset management, and other administrative issues
United Nations Office of the Humanitarian Coordinator for Iraq, northern Iraq	• Coordination and monitoring issues of Security Council resolution 986 (1995)-funded projects implemented in northern Iraq
United Nations Office of the Humanitarian Coordinator for Iraq resident audits	• Security issues in northern Iraq • Payment of mission subsistence allowance • Medical services • Cash management • Observation mechanism in central/southern Iraq
UN-Habitat	• Construction contract management, procurement, finance, cash management and asset management
United Nations Compensation Commission	• Management audit of efforts to phase out the Commission's activities • Procurement of outsourced consulting services • Claim payments and administration • Various "D" and "F" category claims²

8. The 2002 audit plan of OIOS provides continuing coverage of these organizations and also calls for audits of UNMOVIC.

III. Update of audit findings and recommendations

9. The present section of this report provides an update on the status of issues considered in annual reports of OIOS covering the periods from July 1999 to June 2000 and from July 2000 to June 2001. The update also takes into account additional reviews by OIOS covering the areas discussed in its annual reports, clarifies certain aspects of the reports, and provides an update of the actions taken by management to implement recommendations of OIOS.

A. Office of the Iraq Programme

10. The annual report of OIOS covering the period from 1 July 1999 to 30 June 2000 (see A/55/436) discussed the management of the contract for the supply of

inspection agents in Iraq. The Office of the Iraq Programme indicated that steps had been taken to revise the contract upon renewal in order to close gaps and better define the actual basis for payment. OIOS has closed all recommendations pertaining to this audit. In order to assess whether management has taken appropriate action to improve contract management procedures, OIOS plans to conduct an audit of the current contract for inspection agents in Iraq during 2002.

B. United Nations Office of the Humanitarian Coordinator in Iraq

11. OIOS had also conducted an audit of the United Nations Office of the Humanitarian Coordinator in Iraq, the findings of which were reported in its annual report for the period from 1 July 1999 to 30 June 2000. As noted below, OIOS was pleased to learn that the management of the United Nations Office of the Humanitarian Coordinator in Iraq had taken steps to address the issues raised in the report:

- OIOS had identified several weaknesses in the procurement process of the United Nations Office of the Humanitarian Coordinator in Iraq, which resulted in delays and, in some instances, failed to comply with United Nations procurement rules. OIOS accordingly recommended that the delegation of procurement authority to the United Nations Office of the Humanitarian Coordinator in Iraq be reduced. A subsequent OIOS review found that the management of the United Nations Office of the Humanitarian Coordinator in Iraq had overhauled the procurement process, which reduced delays and ensured compliance with procurement rules;
- The United Nations Office of the Humanitarian Coordinator in Iraq had purchased winter relief items in 1999 and 2000 for internally displaced persons in northern Iraq. However, the procurement procedures used departed from established practice. The management of the United Nations Office of the Humanitarian Coordinator in Iraq agreed with OIOS audit recommendations to outsource the procurement and management of relief items. This has allowed the United Nations Office of the Humanitarian Coordinator in Iraq to focus on its coordination and monitoring roles. OIOS has closed all audit recommendations relating to this issue based on their satisfactory implementation;
- OIOS resident audits of activities of the United Nations Office of the Humanitarian Coordinator in Iraq in various locations in Iraq have brought a number of issues to management's attention relating to security, medical services, cash management and other matters. As a result of the OIOS audit recommendations, the management of the United Nations Office of the Humanitarian Coordinator in Iraq has taken steps to strengthen financial and administrative activities in the areas audited. The 2002 audit plan of OIOS calls for its resident auditors to review areas that have not been previously audited and to assess the actions taken to implement previous audit recommendations.

C. Coordination and monitoring activities in northern Iraq of the United Nations Office of the Humanitarian Coordinator in Iraq

12. In northern Iraq, the United Nations Office of the Humanitarian Coordinator in Iraq is primarily concerned with coordinating and monitoring Security Council

resolution 986 (1995)-funded activities being implemented by United Nations agencies and programmes, under a memorandum of understanding with the Office of the Iraq Programme. OIOS found that the United Nations Office of the Humanitarian Coordinator in Iraq needed to strengthen its approach in order to more effectively carry out its responsibilities. The main findings of OIOS and the steps taken by the United Nations Office of the Humanitarian Coordinator in Iraq to address the recommendations of OIOS are discussed below:

- The United Nations Office of the Humanitarian Coordinator in Iraq needed to strengthen the coordination of various activities carried out by United Nations agencies and programmes, which related to: (a) assessing project implementation; (b) establishing common administrative procedures in a number of areas; and (c) developing common procurement procedures in order to share information on contractors and establish standard terms and conditions for contracts;
- Subsequent reviews of the implementation of OIOS recommendations indicated that the management of the United Nations Office of the Humanitarian Coordinator in Iraq had taken a proactive approach to strengthening coordination in northern Iraq. Initiatives included establishing units to deal with programme management and implementation, as well as an Inter-Agency Administrative Working Group. Furthermore, procedures for approving projects under the 13 per cent account are being revised, enabling the United Nations Office of the Humanitarian Coordinator in Iraq to ensure that projects meet established criteria, and to enhance monitoring of the progress of implementation;
- Despite these initiatives, OIOS believes that further steps need to be taken to monitor the activities of United Nations agencies in northern Iraq, including better control over individual projects and the use of key performance indicators to monitor implementation. During 2002, OIOS will assess the steps being taken by the United Nations Office of the Humanitarian Coordinator in Iraq to improve its coordination and monitoring roles. All prior OIOS audit recommendations have been closed.

D. United Nations Compensation Commission

13. The annual report of OIOS covering the period from 1 July 2000 to 30 June 2001 (see A/56/381) reported on the work of the United Nations Compensation Commission established by the Security Council in its resolution 687 (1991), as a subsidiary organ of the Council. The Commission processes claims and pays compensation for losses resulting from Iraq's invasion and occupation of Kuwait. Compensation is paid from a special fund that currently receives 25 per cent of the revenues from Iraqi oil sales.

14. The Commission's work programme provides for phasing out its activities by the end of 2003 except for environmental claims, which are scheduled for completion by the end of 2004. OIOS assessed the preparations being made for phasing out the Commission's activities and identified additional steps needed to ensure the efficient completion of its operations. Major audit findings and management's actions to implement related audit recommendations are discussed below:

- In the view of OIOS, the Commission needed to make proposals to its Governing Council concerning a number of issues with respect to resolving

policy matters that may hamper its ability to complete operations in accordance with its work plan. These matters are as follows: (a) article 41 of the provisional rules for claim procedures, which requires that certain types of errors be brought to the attention of the Executive Secretary within 60 days, had not been adhered to; (b) the policy establishing the criteria for accepting late claims needed to be reviewed and the Governing Council informed of the implications for the work of the Commission; and (c) the policy for responding to substantive claim queries needed to be assessed. We were informed that the Commission had taken steps to implement the OIOS recommendations and that the Governing Council had addressed the related issues. Two recommendations remain outstanding. However, the Commission informed us that one recommendation will be implemented shortly and the other is awaiting a decision by the Governing Council;

- OIOS considered its recommendation that the Commission require Governments and other paying agents to provide audit certificates relating to payment reports submitted to the Commission to be of critical importance. The Commission referred the OIOS recommendation to its Governing Council, which subsequently decided not to adopt this measure. However, OIOS still maintains that the provision of audit certificates is an essential control mechanism to ensure that payments are made to claimants;
- OIOS also conducted an audit of "D" category claims (that is to say, individual claims for damages exceeding \$100,000) processed by the Commission. OIOS recommended that the Commission provide documentation to justify deviations from the prescribed methodology for processing two particular claims that OIOS believed had resulted in overcompensation of \$468,130. The Commission informed OIOS that the Panel of Commissioners had reviewed these cases and determined that the alterations to the methodologies were appropriate. The Commission had not responded to two critical audit recommendations. However, the Commission informed us that it anticipated responding shortly following consultation with the relevant Panel of Commissioners.

IV. Conclusion

15. In the view of OIOS, the overall implementation rate of its critical recommendations has been satisfactory given the size and complexity of the oil-for-food programme and other related activities. OIOS is aware of the difficult circumstances facing operations in Iraq, particularly with regard to obtaining qualified and experienced staff and in deploying them to the field. There is a need to pursue issues detailed in this report in order to determine that adequate procedures are being implemented. In 2002, oil-for-food audit activities will focus on activities in both Iraq and at Headquarters. Moreover, United Nations Compensation Commission audit activities will focus on recently completed high-value and complex claim categories. OIOS will also continue to strengthen cooperation with other United Nations internal audit bodies implementing humanitarian programmes in Iraq.

16. Overall, OIOS believes that the Office of the Iraq Programme is continuing to improve the coordination and monitoring of projects being implemented by United Nations agencies and programmes in northern Iraq. This should result in the more efficient and effective implementation of the oil-for-food programme as well as

increased cost-efficiency. With regard to the United Nations Compensation Commission, OIOS has reviewed only a limited number of claims cases. In general, we have found claims processing to be satisfactory.

Notes

¹ Phases I to VIII for the ESC 13 per cent account were as follows:

Phase I	10 December 1996 to 7 June 1997
Phase II	8 June 1997 to 4 December 1997
Phase III	5 December 1997 to 29 May 1998
Phase IV	30 May 1998 to 25 November 1998
Phase V	26 November 1998 to 24 May 1999
Phase VI	25 May 1999 to 11 December 1999
Phase VII	12 December 1999 to 8 June 2000
Phase VIII	9 June 2000 to 5 December 2000.

² "D" claims are individual claims for damages exceeding \$100,000. "F" claims are claims submitted by Governments and international organizations.